



Midnight Mass — Marc-Aurèle Fortin — The Jean-Pierre Bonneville Collection

NORTHERN TELEPHONE LIMITED

67th ANNUAL REPORT

1971



TRANSFER AGENT

CROWN TRUST COMPANY,
Toronto, Montreal, Winnipeg and Calgary

TRUSTEE

CANADA PERMANENT TRUST COMPANY,
Toronto and Montreal

AUDITORS

KEMP & KEMP,
Chartered Accountants,
New Liskeard, Ontario

BANKERS

CANADIAN IMPERIAL BANK OF COMMERCE,
New Liskeard, Ontario

SIXTY-SEVENTH

ANNUAL REPORT

NORTHERN TELEPHONE LIMITED

Year Ended December 31, 1971



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Transfer Agent, Trustee, Auditors and Bankers *Inside Front Cover*

*Vous pouvez obtenir une version
française de ce rapport en écrivant
au Secrétaire,*

*Téléphone du Nord Limitée
New Liskeard, Ontario*

Highlights of the Report

FINANCIAL RESULTS

	1971	1970
Total Operating Revenues	<u>\$13,181,905</u>	<u>\$12,022,529</u>
Operating and General Expenses	<u>5,429,472</u>	<u>5,114,269</u>
Debenture Interest and Discount	868,091	888,284
Depreciation	2,824,414	2,512,692
Income Taxes	1,651,575	1,535,545
Net Income	<u>1,406,878</u>	<u>1,226,673</u>
Dividends - Preference	409,217	409,217
Dividends - Common	710,187	568,149
Earnings per average common share	<u>.42</u>	<u>.35</u>

BALANCE SHEET

Gross Fixed Assets	\$60,871,132	\$55,670,079
Net Fixed Assets	41,100,498	38,404,948
Accumulated Depreciation	19,770,634	17,265,131
Long Term Debt	14,176,500	14,810,000
Shareholders' Equity	21,415,229	21,127,755

ADDITIONAL STATISTICS

Telephones in service	102,722	98,571
Percent dial operated	98.2	97.1
Number long distance calls	5,874,242	5,590,884
Number of Central Offices	88	86
Number of employees at December 31st ..	605	625
Number of shareholders	2,639	2,730

OFFICERS and DEPARTMENT HEADS

DONALD McKELVIE
President

RICHARD A. H. TAYLOR
Vice-President

MURRAY W. COOPER
General Manager

DENIS H. J. LAMOTHE
Secretary

J. CHAS. BURKHOLDER
Treasurer

LESLIE A. MILLER
Assistant Treasurer

ROY B. BARNARD
General B.I.S. -
Personnel Officer

NORMAN E. CURRIE
General Plant Manager

RONALD M. GIBBINS
Chief Engineer

PATRICK S. HOGAN
Traffic Supervisor

GLEN A. THOMPSON
Commercial-Marketing
Department Manager

J. AURELE G. BARIL
General Manager
Northern Quebec Telephone Inc.



D. McKELVIE
New Liskeard, Ont.



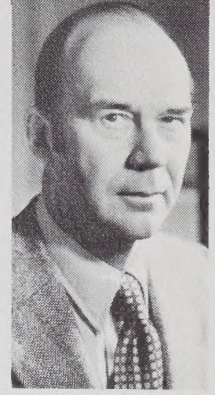
R. A. H. TAYLOR
New Liskeard, Ont.



R. BUISSON
Rouyn, Que.



J. L. MONTAMBAULT
Quebec, Que.



R. T. HUTCHINSON
New Liskeard, Ont.



J. C. LAVIGNE
Timmins, Ont.



J. A. McCUTCHEON
Ottawa, Ont.

DIRECTORS

RENE BUISSON

Vice-President, Buisson-Lachapelle Inc.

ROWAN T. HUTCHINSON

Real Estate Broker

J. CONRAD LAVIGNE

President, Mid-Canada Television System

JOHN A. McCUTCHEON

Vice-President, Bell Canada

DONALD McKELVIE

President, Northern Telephone Limited

J. LEONCE MONTAMBAULT

Vice-President, Bell Canada

W. RALPH RAMSAY

Queen's Counsel

RICHARD A. H. TAYLOR

Chairman, Morissette Diamond
Drilling Limited

Vice-President, Northern Telephone Limited

ORLAND TROPEA

Vice-President, Bell Canada



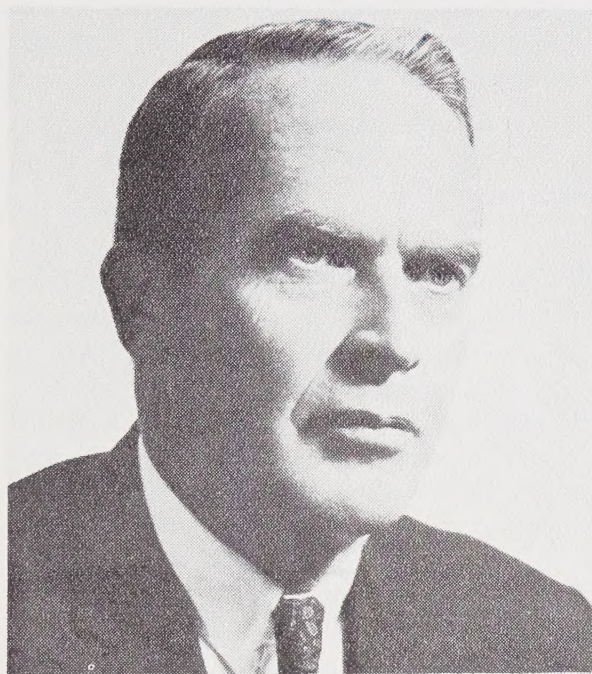
W. R. RAMSAY
New Liskeard, Ont.



O. TROPEA
Montreal, Que.

DIRECTORS' REPORT

TO THE SHAREHOLDERS



In 1971, Northern Telephone continued to grow in revenues, net income and earnings per share. The Company served more customers than ever before and, for the first time, the number of telephones in service exceeded 100,000.

Earnings in 1971 increased to 42 cents per common share compared to 35 cents in the previous year. Operating revenues were up 9.6 per cent while operating expenses were held to an increase of 8.2 per cent.

Net income of \$1,406,878 was 14.7 per cent higher than in the previous year. This increase was due in part to the Federal Government's temporary seven per cent corporate tax reduction for the second half of 1971 and the withdrawal of the three per cent surtax effective July 1. The rate of return on total average capital was 6.4% compared with 6.2% in 1970.

For comparative purposes 1970 figures have been restated to reflect a change in accounting procedures adopted in 1971 to conform with industry practice.

Business Activity Generally Slow

With few exceptions, business activity was generally slow during 1971 in the Company's service areas. The number of telephones in service grew by 4.2 per cent, which is considerably below the national average.

Mattagami, Quebec grew at a rapid rate due mainly to its role as the jumping off point for the James Bay Hydroelectric Project. The construction of a large zinc smelter heightened business activity in the Timmins, Ontario area.

DIRECTORS' REPORT TO THE SHAREHOLDERS (continued)

Long Distance Service Improved

In April, the Company completed the installation of a Primary Centre in Val d'Or, Quebec, bringing Direct Distance Dialing to eleven Northwestern Quebec exchanges. To bring long distance traffic to Val d'Or, microwave transmission systems were built or extended and, as a result, the La Sarre area will also benefit from Direct Distance Dialing in the first quarter of 1973.

During the year, preparatory work began on supplying telecommunications services to the vast area of Northwestern Quebec affected by the proposed James Bay Hydroelectric Project. Involving a network of roads, dams, canals and power stations, the project will involve a very substantial capital investment and will create a definite need for efficient, reliable telecommunications systems.

Additional Capital Required for 1972

In order to meet construction obligations, it is expected that additional capital will be raised in 1972, but the type of financing has not yet been determined.

In preparation for major capital expenditures which will be required in Quebec over the next few years, Supplementary Letters Patent were issued, increasing the authorized capital of Northern Quebec Telephone Inc. from \$1,724,348 to \$22,424,640.

Return on Investment - A Continuing Concern

Northern Telephone's rate of return on total average capital at 6.4% continues to be at an unsatisfactory level. This level of return is not only well below that earned by other major telephone companies, but is below the level necessary to attract the capital required to finance the Company's ongoing construction program.

While the Company has been successful in controlling expenses and raising productivity, Northern Telephone's sparsely-populated service areas entail high construction and maintenance costs and do not produce correspondingly higher revenues.

To increase earnings, and thus the Company's rate of return on total capital, higher rates are a must.

A Commitment to the Future of the North

To assure future prosperity, Northern Ontario and Quebec must experience a substantial influx of secondary industry. Toward this end it appears that due to the efforts of many groups, including governments at all levels, the reliance on resource industries is being slowly erased.

By providing top-grade telecommunications services at reasonable rates, and through its "Buy in the North and Hire in the North" policies, Northern Telephone is doing its share to boost the economy and the future of the North.

In January, 1972, Mr. Denis H.J. Lamothe was appointed Secretary of the Company. Because of the increasing size and complexity of the Company's operations, it was felt necessary to separate the positions of Secretary and Treasurer.

Finally, the Directors of the Company wish to express their appreciation of the Company's dedicated employees for the high level of service provided during 1971.

Respectfully submitted on behalf of the Board.

D. McKelvie,
President.

New Liskeard, Ontario.
February 23rd, 1972.

NORTHERN TELEPHONE LIMITED
and subsidiary companies

CONSOLIDATED INCOME STATEMENT

	Year 1971	Year 1970*
OPERATING REVENUES		
Local service	\$ 7,299,884	\$ 6,719,742
Long distance service	5,288,753	4,661,602
Miscellaneous	661,566	691,318
Less: Uncollectibles	68,298	50,133
	<u>13,181,905</u>	<u>12,022,529</u>
OPERATING EXPENSES		
Depreciation (Note 2)	2,824,414	2,512,692
Maintenance	2,187,296	2,111,521
Traffic (Note 3)	896,552	987,020
Marketing and Commercial	790,329	692,004
Accounting (Note 4)	703,405	519,475
Provision for service pensions and other employee benefits	339,142	210,204
Other (Note 5)	512,748	594,045
	<u>8,253,886</u>	<u>7,626,961</u>
Net Operating Revenues	<u>4,928,019</u>	<u>4,395,568</u>
OPERATING TAXES		
Income taxes	1,651,575	1,535,545
Other taxes	439,122	418,492
	<u>2,090,697</u>	<u>1,954,037</u>
Operating Income	<u>2,837,322</u>	<u>2,441,531</u>
OTHER INCOME		
Miscellaneous	84,256	407,995
Less: Amortization of excess of cost of investment in subsidiary companies over book value at acquisition (Note 1)	235,200	235,200
	<u>(150,944)</u>	<u>172,795</u>
Total Income Before Interest Charges	<u>2,686,378</u>	<u>2,614,326</u>
INTEREST CHARGES		
Interest on long term debt	847,467	867,293
Other interest	411,409	499,369
Amortization of long term debt expenses	20,624	20,991
	<u>1,279,500</u>	<u>1,387,653</u>
NET INCOME	<u>\$ 1,406,878</u>	<u>\$ 1,226,673</u>
EARNINGS PER COMMON SHARE	\$ 0.42	\$ 0.35
(After preference dividends and based on average number of shares outstanding)		

*RESTATED FOR COMPARISON PURPOSES

CONSOLIDATE

ASSETS

	December 31, 1971	December 31, 1970*
TELEPHONE PROPERTY		
Buildings, plant and equipment - at cost	\$59,531,562	\$52,123,813
Less: Accumulated depreciation	<u>19,770,634</u>	<u>17,265,131</u>
	39,760,928	34,858,682
Land and plant under construction at cost	<u>1,339,570</u>	<u>3,546,266</u>
	<u>41,100,498</u>	<u>38,404,948</u>
CURRENT ASSETS		
Accounts receivable	1,898,870	1,566,056
Materials and supplies - at cost	1,198,884	867,588
Prepayments	<u>195,178</u>	<u>159,188</u>
	<u>3,292,932</u>	<u>2,592,832</u>
DEFERRED CHARGES		
Unamortized excess of cost of investments in subsidiary Companies (Note 1)	3,533,203	3,768,403
Unamortized long term debt expenses	<u>206,808</u>	<u>227,432</u>
	<u>3,740,011</u>	<u>3,995,835</u>
	<u>\$48,133,441</u>	<u>\$44,993,615</u>

On behalf of the Board of Directors:

D. McKelvie, Director

R.A.H. Taylor, Director

*RESTATED FOR C

BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31, 1971	December 31, 1970*
SHAREHOLDERS' EQUITY		
Capital Stock		
Preference (Note 7)	\$ 7,564,000	\$ 7,564,000
Common (Note 7)	10,707,472	10,707,472
Retained earnings	3,143,757	2,856,283
	<u>21,415,229</u>	<u>21,127,755</u>
LONG TERM DEBT (Note 8)	14,176,500	14,810,000
NOTES PAYABLE (Note 9)	7,650,000	4,950,000
CURRENT LIABILITIES		
Bank overdraft	59,716	231,738
Accounts payable (Note 6)	1,646,886	1,456,078
Advance billing for service	217,954	228,928
Dividends payable	279,851	244,342
Taxes accrued	60,613	277,824
Interest accrued	171,032	179,690
	<u>2,436,052</u>	<u>2,618,600</u>
DEFERRED CREDITS		
Income taxes (Note 10)	2,455,660	1,487,260
	<u>\$48,133,441</u>	<u>\$44,993,615</u>

NORTHERN TELEPHONE LIMITED
and subsidiary companies

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year 1971	Year 1970
BALANCE AT BEGINNING OF YEAR AS REPORTED	\$ 3,054,466	\$ 2,606,976
Adjustment of prior year's income taxes	198,183	—
Balance at beginning of year as restated	2,856,283	2,606,976
Net Income	1,406,878	1,226,673
	4,263,161	3,833,649
Deduct: Dividends - Preference shares	409,217	409,217
- Common shares	710,187	568,149
	1,119,404	977,366
BALANCE AT END OF YEAR	\$ 3,143,757	\$ 2,856,283

Consolidated Statement of Source and Disposition of Funds

SOURCE OF FUNDS

Operations		
Net income	\$ 1,406,878	\$ 1,226,673
Items not requiring current funds:		
Depreciation and miscellaneous (net)	2,994,071	2,230,040
Deferred income taxes	695,016	346,274
Deferred income taxes - prior period	273,384	—
	5,369,349	3,802,987
Special refundable tax	—	31,985
Net proceeds from notes payable	2,700,000	—
Decrease in working capital	—	4,529,951
	\$ 8,069,349	\$ 8,364,923

DISPOSITION OF FUNDS

Construction Expenditures		
Gross construction expenditures	\$ 5,918,364	\$ 6,861,346
Deduct: Charges to construction not requiring funds ..	462,724	480,177
	5,455,640	6,381,169
Net retirement of notes payable	—	350,000
Dividends	1,119,404	977,366
Repayment of long term debt	611,657	645,834
Miscellaneous items	—	10,554
Increase in working capital	882,648	—
	\$ 8,069,349	\$ 8,364,923

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Principles of consolidation

- a) Consolidated financial statements include the accounts of the two subsidiary companies both of which are wholly owned. The excess of the cost of these investments which exceeded the book value of the Company's equity therein at date of acquisition is being amortized over a period of 20 years commencing in 1967. Prior to 1970 the amounts amortized were charged to consolidated retained earnings. Since 1970 these amounts are charged to consolidated income.
- b) In 1971 the Company changed the method of reporting certain capitalized expenses showing them as a reduction of operating expenses rather than as miscellaneous income. At the same time the Company adopted tax allocation procedures in respect to capitalized expenses. As a consequence the deferred income taxes were increased and net income decreased in 1971 by \$214,576. With exception of 1970 no retroactive adjustments were made. For comparative purposes, 1970 figures were restated to give effect to the changed practices. Net income previously reported for that year was therefore reduced by \$198,183.

NOTE 2. Depreciation

Depreciation is calculated on the straight line method at a composite rate of approximately 5% in 1970 and 1971.

NOTE 3. Traffic

Expenses, principally wages, incurred in the handling of messages.

NOTE 4. Accounting

Includes computer production expense incurred in the business informations department.

NOTE 5. Other

General office salaries and expenses, operating rents and miscellaneous expenses.

NOTE 6. Accounts Payable

At December 31st, 1971, accounts payable include \$57,728 to the Parent Company and \$22,839 owing to an affiliate.

NOTE 7. Capital Stock

Preference Shares

Authorized - with a par value of \$20.00 each

issuable in series, voting

First Preference	500,000 shares		\$10,000,000
Second Preference	250,000 shares	... \$ 5,000,000 ...	
Less: Converted	121,800 shares	... 2,436,000 ...	
	128,200 shares	... \$ 2,564,000 ...	2,564,000
			<u>\$12,564,000</u>

NOTE 7. (Cont'd.)

Outstanding - FIRST PREFERENCE (Redeemable at \$20.40 per share)

75,000	5½ %	cumulative preference shares - Series "A"	\$ 1,500,000
50,000	5½ %	cumulative preference shares - Series "B"	1,000,000
100,000	5½ %	cumulative preference shares - Series "C"	2,000,000
25,000	5½ %	cumulative preference shares - Series "D"	500,000
			<u>\$ 5,000,000</u>

Outstanding - SECOND PREFERENCE (Convertibility expired)

7,853	5%	cumulative preference shares - Series "A" redeemable at \$20.60 per share to January 1, 1972 and \$20.40 thereafter	\$ 157,060
120,347	5¼ %	cumulative preference shares - Series "B" redeemable at \$20.80 per share to April 1, 1972 thereafter at \$20.60 to April 1, 1975 and \$20.40 thereafter	2,406,940
			<u>2,564,000</u>
			<u>\$ 7,564,000</u>

Common shares

Authorized	-	5,000,000 shares of no par value to be issued for a consideration not to exceed \$15,000,000.	
Outstanding	-	2,367,289 shares	<u>\$10,707,472</u>

NOTE 8. Long Term Debt

Northern Telephone Limited
20 year Sinking Fund Debentures

<u>Maturity Date</u>	<u>Rate of Interest</u>	<u>Series</u>	<u>Outstanding</u>
April 1st, 1975	4 %	B	\$ 832,000
May 1st, 1978	5¼ %	C	1,499,000
January 2nd, 1981	6 %	D	1,745,500
December 1st, 1981	5½ %	E	586,000
May 1st, 1983	5¾ %	F	2,734,000
December 15th, 1984	5⅝ %	G	1,860,000
May 1st, 1987	6½ %	H	4,800,000
			<u>\$14,056,500</u>

Northern Quebec Telephone Inc.
First Mortgage Sinking Fund Bond

May 1st, 1975	6 %	B	<u>120,000</u>
Total Long Term Debt			<u>\$14,176,500</u>

NOTE 9. Notes Payable

Promissory note, payable on demand, with the Canadian Imperial Bank of Commerce.

NOTE 10. Deferred Income Tax

Commencing January 1st, 1966, the Company adopted the income tax allocation in respect of capital cost allowances for income tax purposes being in excess of recorded depreciation. If the Company had adopted this method prior to 1966, the accumulated deferred income taxes at December 31st, 1971, would be increased by approximately \$1,115,000. Retroactive to 1970, the Company adopted tax allocation procedures in respect to capitalized expenses (See Note 1).

NOTE 11. Remuneration of Directors

During the year ended December 31st, 1971, the aggregate direct remuneration paid or payable by the Company and its subsidiaries to the Directors and Senior Officers of the Company was \$146,900.

NOTE 12. Pension

The latest actuarial valuation of the Plans for Employees' Pensions established an unfunded liability of \$208,038 at December 31st, 1970. Based on this valuation, less payments made to December 31st, 1971, the unfunded liability is \$175,806 at that date. Payments are charged to operations in the years they are made.

AUDITORS' REPORT

To the Shareholders of

NORTHERN TELEPHONE LIMITED:

We have examined the consolidated balance sheet of NORTHERN TELEPHONE LIMITED as at December 31, 1971, and the consolidated income statement, statement of retained earnings and statement of source and disposition of funds for the year then ended. Our examination of the financial statements of Northern Telephone Limited and the subsidiary of which we are auditors included a general review of the accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditor who has examined the financial statements of the other subsidiary.

In our opinion these consolidated financial statements present fairly the financial position of the companies at December 31, 1971, and the results of their operations and the source and disposition of their funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except as to the change in the method of capitalizing certain operating expenses in 1971, with which we concur, details of which are shown on Note 1 (b) in the Notes to Consolidated Financial Statements.

New Liskeard, Ontario
February 1, 1972

KEMP & KEMP
Chartered Accountants

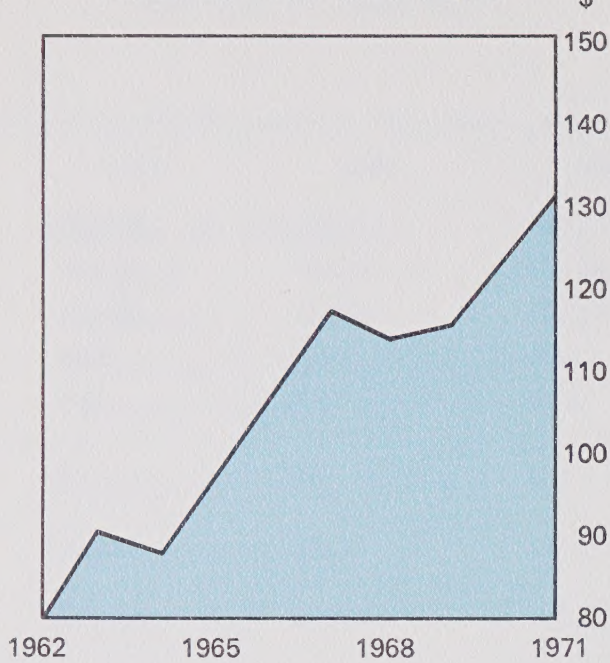
STATISTICS 1962-1971

(Including All Subsidiaries)

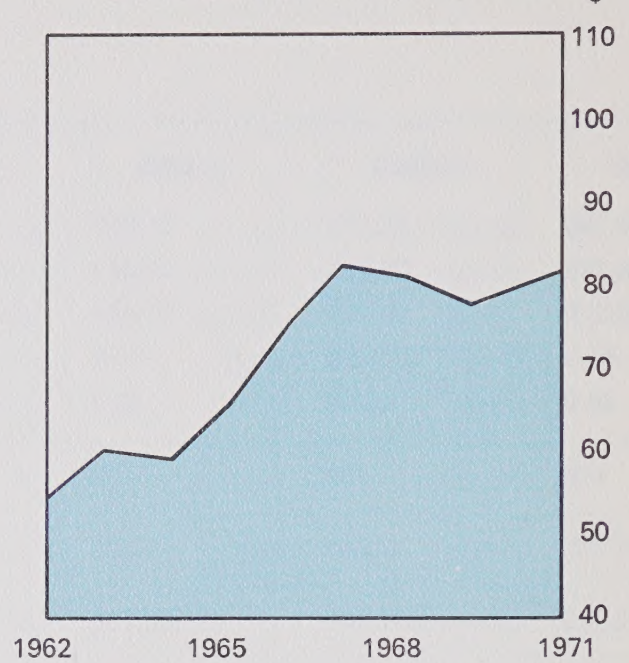
	1971	1970	1969	1968
NUMBER OF TELEPHONES	102,722	97,194	93,986	97,912
Business	30,968	29,161	28,355	30,083
Residence	71,754	68,033	65,631	67,829
Percentage Residence of Total ..	69.9	70.0	69.8	69.3
Percentage Dial of Total	98.2	97.1	96.8	95.2
NUMBER OF CENTRAL OFFICES .	88	86	87	115
MILES OF POLE LINES	4,373	4,404	4,326	4,134
MILES OF WIRE	325,298	310,181	293,343	297,339
LONG DISTANCE CALLS	5,879,985	5,590,884	5,427,557	5,152,324
Company Lines	2,630,629	2,557,759	2,598,626	2,560,812
Connecting Companies' Lines ..	3,249,326	3,033,125	2,828,931	2,591,512
TOTAL INVESTMENT PLANT & EQUIP.	\$60,871,132	\$55,670,079	\$49,207,613	\$53,551,164
Plant & Equip. Less Dep.	\$41,100,490	\$38,404,948	\$34,077,518	\$37,416,518
OPERATING REVENUES	\$13,181,905	\$12,022,529	\$10,688,771	\$10,807,847
NUMBER OF EMPLOYEES				
Men	345	336	352	374
Women	260	289	256	392
Total Employees	605	625	608	766
TOTAL PAYROLL				
Operations	\$ 3,050,371	\$ 2,908,299	\$ 2,600,378	\$ 2,868,444
NUMBER OF SHAREHOLDERS				
In Canada	2,542	2,620	2,650	2,730
Elsewhere	97	110	112	115
Total Shareholders	2,639	2,730	2,762	2,845

1967	1966	1965	1964	1963	1962
94,190	85,705	81,348	77,498	71,681	67,066
28,571	26,836	25,367	24,115	22,039	20,610
65,619	58,869	55,981	53,383	49,642	46,456
69.7	68.5	68.8	68.8	69.3	69.3
94.2	91.8	89.2	84.4	82.8	78.0
115	108	109	103	91	84
4,110	3,914	3,825	3,752	3,259	3,050
282,232	251,304	235,834	215,023	200,648	188,808
5,224,231	4,432,847	4,113,808	3,306,631	3,119,205	2,790,736
2,672,179	2,137,615	1,927,245	1,552,586	1,460,572	1,407,856
2,552,052	2,295,232	2,186,563	1,754,045	1,658,633	1,382,880
\$48,560,359	\$41,708,885	\$36,062,388	\$32,572,672	\$27,336,419	\$24,336,419
\$34,475,484	\$29,980,665	\$25,849,376	\$23,212,665	\$19,471,665	\$17,927,815
\$10,217,371	\$ 8,868,056	\$ 7,856,925	\$ 6,746,203	\$ 6,364,850	\$ 5,322,034
416	486	503	393	313	319
430	389	245	357	336	317
846	875	748	750	649	636
\$ 3,094,270	\$ 2,987,855	\$ 2,411,478	\$ 2,088,215	\$ 1,894,873	\$ 1,602,358
2,771	2,890	5,228	4,934	4,604	4,156
93	94	286	300	403	398
2,864	2,984	5,514	5,234	5,007	4,554

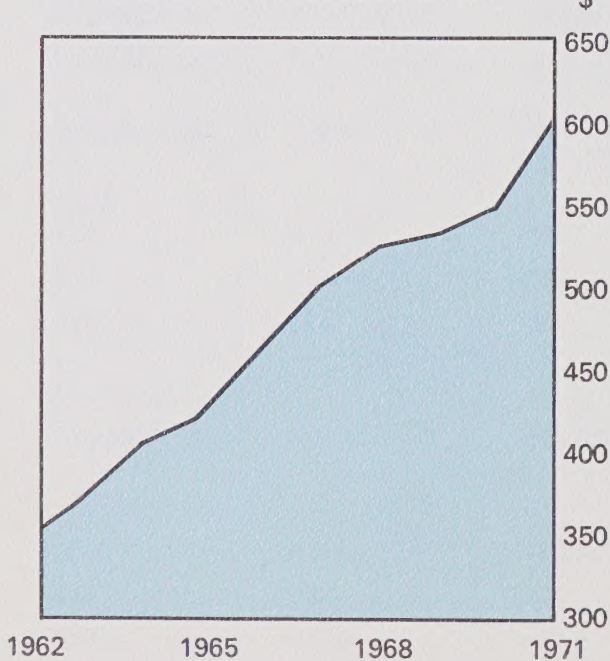
REVENUE PER TELEPHONE



EXPENSE PER TELEPHONE



PLANT PER TELEPHONE



DISPOSITION OF 1971 INCOME DOLLAR



"Midnight Mass"

by Marc-Aurèle Fortin

We have selected a painting by Quebec's best known landscape painter for this, our 67th Annual Report. Marc-Aurèle Fortin accomplished in Quebec what the "Group of Seven" did in Ontario, that is Canadian painting free from outside influence. The cover painting represents the journey to Midnight Mass in a small Quebec village. Produced circa 1938, it forms part of an extensive collection of this artist's work by Mr. Jean-Pierre Bonneville of Rouyn, Quebec. Marc-Aurèle Fortin was born in Ste. Rose near Montreal in 1888 and he passed away at Macamic, Quebec, in 1970. We thank Mr. Bonneville for his interest and assistance in the selection of this work of art.

